

2/3/53 (Item 1 from file: 631)

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09719102

CYRK TIES FUTURE TO THE INTERNET

FRIDAY, August 7, 1998

Word Count: 708

DESCRIPTORS: ADVERTISING

?T S2/FULL/13

2/9/13 (Item 13 from file: 16)

DIALOG(R) File 16: Gale Group PROMT(R)

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06188258 Supplier Number: 54083155 (THIS IS THE FULLTEXT)

BUILDING BRAND LOYALTY Chase, Continental Co-Branded Debit Leads The Way.

EFT Report, v22, n5, pNA

March 10, 1999

ISSN: 0195-7287

Language: English Record Type: Fulltext

Document Type: Newsletter; Trade

Word Count: 981

TEXT:

Chase Manhattan [CMB] of New York is hoping its checking customers are ready to start nickel-and-diming their way to Hawaiian vacations.

The eighth-largest debit card issuer, Chase recently began issuing debit cards co-branded with Houston-based Continental Airlines [CAI].

Chase checking customers get one frequent flyer mile through Continental's OnePass program for every \$2 they spend using the co-branded debit card.

The partnership underscores the rising popularity of debit purchasing and the importance of debit programs to banks.

Co-branding is old hat for credit card issuers - in fact Chase and Continental share a co-*branded* *credit* *card* as well. But in the United States such partnerships are rare for debit programs.

Judy Miller, a Chase spokeswoman, says the bank's primary goal is to retain current customers. "We're interested in providing added value" to the debit program, she says. "Customers told us they'd like to see frequent flyer *points* attached to a *loyalty*-debit program."

Co-branding debit is a good idea, says James Accomando, president of the Fairfield, Conn.-based Accomando Consulting. Expect to see more as debit becomes more popular and banks use the cards to differentiate themselves from their competition, he says.

More People Using Debit

Customers are getting comfortable with their debit cards. The nation's largest regional EFT networks report an increasing percentage of their traffic is generated by point-of-sale terminals (EFT, Feb. 24).

Also, younger, more affluent people use their debit cards more often, shows a recently completed survey of banking customers from the Boston-based Dove Associates research firm.

The Dove 1,400 respondents tended to be a little younger, better educated and wealthier than the national average. Dove found they used their debit cards about as often as they used checks or credit cards.

Cash accounts for about two-fifths of the respondents' purchases, says Beth Costa, a Dove analyst. Checks, credit and debit each make up about a fifth of their transactions.

If you look at overall transactions in the United States, debit doesn't hold that kind of market share. But Costa adds: "This is the cross-section everyone wants to share ... [and] those folks use debit at the point of sale as often as they use credit cards or checks."

Different Users Than Credit

Continental pictures attracting a different kind of customer through the program, says Nora Bush, manager of marketing programs.

Bush describes a customer that "might not be in the same demographic as credit card" users - for instance those with a slightly lower income.

Continental hopes the program appeals to "people who use the debit

card for everyday purchases, such as groceries and gas, for which they wouldn't use credit cards," she says.

Because Chase and Continental both have a strong customer base in New York and Texas, the two companies share a significant number of customers.

In the short term, Continental will market the debit program to existing OnePass frequent flyers - regardless of whether they have Chase checking accounts. However, shared customers will get a message tailored to them, Bush says.

Bush would not reveal program goals for issuing the cards.

Cruising Uncharted Airways

The card is Chase's first co-branded debit effort, Miller says. It also is the first debit card attached to a frequent flyer program for the industry, she says.

Chase customers get the free miles if they use their cards either as an offline or online debit card, but not when they use them as automated teller machine cards.

Banks pay for a portion of the free miles their customer win, but debit cards don't generate the interest income of credit cards.

As a result, the bank negotiated a less generous award formula. The debit card rewards are less generous than the one-mile-per-dollar-spent formula credit card users get.

"[The miles formula] doesn't matter to us, but it does to the bank," Bush says.

The program is open to all Chase checking customers. The bank hopes the co-branding program will attract new customers, but the primary motivation is retaining existing customers.

Chase has nearly 3 million debit cards in circulation. About 2 million also bear the MasterCard's MasterMoney logo and serve as offline cards.

Keep Familiar Customers

Adding value to a debit card, such as attaching a frequent flyer program, is a sound way to shore up a bank's critical product, Accomando says.

"The core product to a bank is the checking account," he says, noting customers can go elsewhere for other consumer services, such as credit cards and car loans. "The link to banks for loyalty is checking."

As with credit cards, co-branded debit is primarily a means to "drive customers back to the bank," Accomando says.

Such debit-based loyalty programs are common in foreign markets, such as Australia, where consumers view credit cards as secondary to EFT payment methods. U.S. banks are catching up with the idea of adding value to EFT, he says.

For Chase "there is a lot of room for increasing transactions at point of sale, migrating transactions from cash ... over to debit," Costa says. "There's room to grow in their backyard."

Co-branding a debit card shouldn't weaken a co-branded credit card program, she says.

Point-of-sale transactions usually are purchases that otherwise would have been paid for with cash or a check.

"Consumers have a separation between what they buy with credit card vs. cash or check," she says.

Chase and Continental released their co-branded credit card in March 1998. The companies hatched the plan for a debit program after that, company officials say. "I'm not sure we were as interested in a co-branded debit card as with strengthening our relationship with Chase," Bush says. But, after speaking with Chase's debit card program managers, Continental came to view debit "as a natural extension to the co-branded credit card." (James Accomando, Accomando Consulting, 203/367-3306; Nora Bush, Continental, 713/834-5000, <http://www.continental.com>; Beth Costa, Dove, 412/486-2755; Judy Miller, Chase, 212/270-6000, <http://www.chase.com>.)

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PUBLISHER NAME: Phillips Business Information, Inc.

COMPANY NAMES: *Chase Manhattan Corp.; Continental Airlines Inc.

EVENT NAMES: *380 (Strategic alliances)

GEOGRAPHIC NAMES: *1USA (United States)

PRODUCT NAMES: *6020000 (Commercial Banks); 4510000 (Scheduled

Airlines)

INDUSTRY NAMES: BANK (Banking, Finance and Accounting); BUSN (Any type of business)

SIC CODES: 6020 (Commercial Banks); 4510 (Air Transportation, Scheduled, And Air Courier Services)

NAICS CODES: 52211 (Commercial Banking); 4811 (Scheduled Air Transportation)

TICKER SYMBOLS: CMB

SPECIAL FEATURES: INDUSTRY; COMPANY